

Memorandum for: For the Record

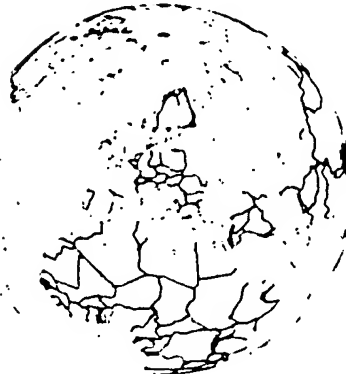
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These talking points were prepared
[redacted] EURA/WE/GN at the request of [redacted]
for inclusion in materials being prepared
for the DCI's meeting with visiting Icelandic
VIPs.

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**Office of European Analysis
Directorate of Intelligence**

State Dept. review completed

30 January 1985

Iceland: Talking Points for the DCIPolitical Situation

1. Prime Minister Steingrímur Hermannsson leads a center-right coalition government of his agrarian-based Progressive Party and the conservative Independence Party. The coalition, which has been in office since May 1983, holds 37 out of 60 seats in Parliament. The parliamentary opposition consists of the Social Democratic Party, the Social Democratic Alliance, the Peoples Alliance, and several independent female parliamentarians. Even though there are presumed communists among the Peoples Alliance leadership, we regard the party as left-socialist since the bulk of the membership and most of its leaders are non-communist. There are, nevertheless, several small orthodox communist parties, none of which has parliamentary representation [redacted]

2. Elections need not be held again until 1987, and Hermannsson, sensing a low level of public confidence in his government, is reluctant to call an early vote. We attribute the coalition's current poor standing with the voters to the following factors:

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- the government's failure to act quickly and decisively to end a public workers' strike last fall;
- recent economic difficulties, some of which result from the strike settlement, including the threat of accelerated inflation; and
- a power struggle within the Independence Party. The conflict centers on the desire of Chairman Thorsteinn Pálsson, who represents the younger, more conservative elements of the party, to secure a cabinet portfolio by displacing one of the Party's three ministers. The dispute has left the government open to charges that it is too weak and distracted to solve the country's problems [redacted]

Political-Security Issues

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2. Hermannsson and Foreign Minister Geir Hallgrímsson, who also has responsibility for defense matters, support NATO policies and the presence of US forces at the Keflavik NATO air base even more strongly than previous governments. Polls show that a large majority of Icelanders agree with the government on these issues.

- The government is seeking a more active role for Iceland in NATO forums. To this end, the Foreign Ministry was reorganized last summer to include a full-time NATO desk officer. Iceland is also seeking some form of representation on the NATO Military Committee -- possibly a slot on the NATO International Staff -- and a way of participating in the NATO Infrastructure Committee.

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- Foreign Minister Hallgrimsson has pushed hard for public appreciation and acceptance of the necessity for NATO's presence on the island and Iceland's more active interest in NATO affairs. In line with his perception of Iceland's security requirements, Hallgrimsson has been instrumental in helping to forge closer US-Icelandic ties. [redacted]

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Economic Issues

3. When the government took office in May 1983, it launched an economic austerity program that focused on reducing inflation, government deficits, and trade imbalances while taking modest steps to combat rising unemployment. The program succeeded in bringing inflation down from a record high of over 120 percent to an annual rate of 18 to 20 percent by October 1984.

- On 4 October, public sector employees launched a large scale strike, demanding compensation for wages lost since indexation was abolished in 1983. The strike lasted six weeks, and the government eventually agreed to wage increases of more than 20 percent. By the end of 1984, inflation had accelerated to the 25 to 30 percent range. We believe the wage settlements are cause for considerable concern about the government's ability to hold the line on inflation and maintain a stable exchange rate policy. [redacted]

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4. The government hopes to diversify the Icelandic economy, which depends on the fishing industry for about half of its total employment and over 70 percent of its export revenue. Hermannsson is interested in joint US-Icelandic efforts to identify and nurture potential high-growth industries.

- The government has encouraged domestic and foreign investment in the hydroelectric, geothermal, and minerals areas, of which Iceland has substantial resource bases. [redacted]

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Bilateral Issues

5. The incumbency of a center-right government has significantly improved the climate for resolving issues affecting the US-manned Icelandic Defense Force (IDF). Iceland, with no armed forces of its own, relies on the IDF and the Icelandic Coast Guard for its protection.

- Foreign Minister Hallgrimsson has paved the way for government approval of many defense modernization projects that had been delayed under the previous center-left administration -- including new fuel storage facilities, air defense expansion and modernization, and a new joint military-civilian-use air terminal at Keflavik. As of this month, negotiations also are underway for an upgrading of NATO's radar capabilities in Iceland. [redacted]

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6. Iceland's current economic strains have made it difficult for the government to fund fully its share of these projects. At the same time, the financial problems have made the government and the public more aware of the economic benefits of a US presence, a factor that should benefit any future US proposals for improving IDF facilities.

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- Economic conditions may account in part for a lessening of overt hostility to the US presence from leftist elements. Base opponents last year cancelled an annual protest march against the stationing of US forces, in part, according to Embassy officials in Reykjavik, because they expected a poor turnout. [redacted]

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7. Only one significant problem mars relations with the US. In 1984 an American transatlantic shipping company -- Rainbow Navigation, Inc. -- began ferrying some US military cargos to and from Keflavik, reducing the market share of Icelandic shipping firms which previously enjoyed a monopoly over the route. Negotiations between the two governments have thus far failed to find a long-term solution to a situation Iceland sees as potentially damaging to its economic interest. [redacted]

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